



COUNCILMEMBER CARL DEMaIO

FIFTH DISTRICT

CITY OF SAN DIEGO

MEMORANDUM

DATE: May 4, 2009

TO: Honorable Mayor and City Councilmembers

FROM: Councilmember Carl DeMaio *Carl DeMaio*

RE: Balancing the FY 2010 Budget

I am pleased to offer for your consideration a comprehensive Balanced Budget Plan that would alter the proposed FY 2010 budget to protect city reserves while avoiding tax and fee increases.

My budget plan proposes \$22.1 million in cost savings in the FY 2010 budget to achieve balance. In addition, I am proposing to significantly enhance the city's internal auditing and fraud investigation capacities to protect taxpayer monies spent elsewhere in the budget.

Finally, with the outcome of the May 19th election on state budget reforms highly uncertain, my budget plan creates a "Special Reserve" to provide an important cushion for possible state government cuts to city funding if the state budget deal unravels.

Observations on Current Budget Proposal

The current budget proposal largely reflects the Mayor and City Council's mutual commitment to restore the city's financial health while providing the best quality and level of services to our neighborhoods.

I am very pleased that the proposed budget achieves more than \$32 million in General Fund cost savings through labor cost reforms – consistent with the recommendations I made in my January memorandum on initial budget priorities (see attached).

By acting in a unanimous manner, the Mayor and City Council showed great leadership in this budget to take the positive first steps to bring city labor costs back down to sustainable levels over the long-term. I also commend the three labor unions that reached mutual agreement with the city to achieve this important accomplishment.

Notwithstanding these positive elements, the current budget proposal on the table contains several flaws. Specifically the current budget plan imposes fee increases that will hurt San

Diego's working families and business. In addition, the current budget proposal uses one-time monies to cover ongoing expenses by raiding city reserves – and leaves no cushion for possible state budget cuts.

As the FY 2011 budget is likely to see a \$100 million deficit, I believe the FY 2010 budget package should include Mayor and City Council action on longer-term structural reforms that will net savings for the FY 2011 budget.

Modification 1: Preserve City Reserves – Prepare for Possible State Budget Impacts

Throughout the budget process, the potential for the state to raid local government funds has been discussed at length. With the outcome of the May 19th election on budget reforms highly uncertain, the city must be prepared for the state to seize up to \$35 million of General Fund revenues this year. In addition to this possible loss of state funds, I have raised concerns about the possibility that the city has been overly optimistic in its revenue projections – particularly with respect to sales tax and transient occupancy tax revenues.

With these concerns in mind, I strongly urge my colleagues to allocate \$22.1 million in internal stabilization reserves being tapped to a “**Special Reserve**” for use during FY 2010 only if a) the state raids our revenues or b) actual city revenues fall short of the revenue assumptions included in the FY 2010 budget. Should neither trigger occur, the city would have \$22.1 million in funds that it could allocate to the projected \$100 million deficit in FY 2011.

Modification 2: Reduce Spending through Cost Saving Reforms (See Attached Matrix)
--

The labor contracts provide the first steps in reducing the inefficiencies and waste in city departments. I believe more can and should be done to reduce spending in the FY 2010 budget – making monies available for the Special Reserve outlined above or to avoid tax and fee increases included in the current budget proposal. My office has compiled a number of cost saving reforms that could be implemented in time to “score” for the FY 2010 budget.

<u>Reform Option</u>	<u>Description</u>	<u>Cost Savings</u>
1. Vacancy Rate Scoring	Increase budgetary savings value of vacancies in General Fund departments. This calculation is conservative and still allows for departments to fill positions mid-year.	\$8,500,000
2. Management De-Layering	As proposed by Local 127, implement "phase 1 pilot" management de-layering initiative starting with elimination of the Assistant Chief Operating Officer (\$550,000 for this office) and 15 other mid-level managers across General Fund departments.	\$2,500,000
3. Redevelopment Agency Payment	Instruct the Redevelopment Agency to remit payment to cover permissible expenses covered in General Fund, including portion of debt service on Deferred Maintenance Bond for improvements in redevelopment zones, reimbursement for revenue sharing on concourse parking for civic theatre, etc.	\$3,000,000
4. Wireless Revenues	Allocate wireless revenues from wireless tower rentals on park and recreation lands (currently unbudgeted and unallocated funds)	\$350,000
5. Secretariat Model for Boards and Commissions	Consolidate administrative support for various city boards and commissions into a "Secretariat" model of shared services.	\$300,000
6. Support Staffing for "Independent Agencies"	Charge back to so-called "Independent Agencies" for city staffing and oversight costs. (CCDC, SEDC, SDDPC, Convention Center, SDCERS, Housing Commission, etc.)	\$250,000
7. Environmental Services Department Reforms	Switch from 8-hour to 11-hour work schedule for staffing refuse collection (requiring meet & confer); extend use of equipment to industry standards, and relocate administrative management from Ridgehaven facility to operations and disposal centers.	\$1,500,000
8. Special Promotional Programs	Using the 6% reduction in city employee compensation as a benchmark, implement a commensurate reduction in the Special Promotional Program account relating to discretionary accounts for arts, culture and community festivals. Consider using City Council TOT allocations to offset loss of funding.	\$480,000
9. Expanded Marketing Partnerships	Expand commercial marketing using city facilities as core platform -- selling advertisements on City-TV 24, lifeguard towers, city publications, etc.	\$600,000

10. Reduction in Supplies and Services Budgets	With the City already 84% done with the fiscal year, several departments are way below their “burn rate” in supplies and services. Additionally the IBA has identified unexpended equipment monies in IT funds. Reduce appropriations in these areas to reflect actual experience and fund balances.	\$3,100,000
11. Redirect Library Fundraising Efforts	Philanthropy can work for the city for more than just fire pits. Suspend fundraising for the new Downtown Library and redirect fundraising efforts to achieve a \$2 million target that would be able to cover operating hours of branch libraries. Some of this amount could be achieved by substituting RSVP-like volunteers for paid staff – subject to applicable labor contract requirements.	\$2,000,000

Savings from Reforms Outlined Above: \$22.5 Million

Increase Expense from Expansion of Internal Audits: (\$400,000)

TOTAL \$22.1 Million

Modification 3: Enhance Internal Audit Function to Protect Taxpayer Funds
--

At the April 27th meeting of the Audit Committee, I made a motion – which was approved unanimously – to recommend the addition of a Fraud Investigator and three additional Internal Auditors for FY 2010, adding a cost of \$400,000 to the FY 2010 budget. The addition of these internal audit positions is consistent with recommendations from city consultants and the newly-appointed City Auditor. The addition of the Fraud Investigator will allow the city to have a dedicated staff member responsible for the Fraud Hotline.

I firmly believe that the investment in expanded internal audit capacity will actually save taxpayer monies – if not directly in FY 2010, shortly thereafter. It should be noted that due to limited internal staff capacity, the city has had to contract out for performance audits of CCDC and SEDC – at a cost of \$600,000 to the Redevelopment Agency for those studies. In addition, with each internal audit study conducted there are likely to be numerous recommendations for ways to save additional taxpayer funds.

Modification 4: Prepare for FY 2011 Budget Deficit through Immediate Implementation of Management Reforms

The recent review of the FY 2010 proposed budget by the Independent Budget Analyst projects a deficit of at least \$100 million for FY 2011. Given the difficulty of dealing with the \$60 million FY 2010 deficit, the FY 2011 budget demands immediate attention in order to avoid the utilization of hasty, stop-gap budget balancing measures in lieu of structural reform.

In 2006 San Diego voters clearly spoke to their elected leaders in mandating that the City utilize “managed competition” to achieve cost savings and performance improvements. Unfortunately, this reform has met strong resistance from being implemented, and to date, not one taxpayer dollar has been subjected to this voter-approved requirement. I ask that the City Council commit to a specific target of \$10 million of cost savings for the FY 2011 budget from implementation of managed competition. To not move forward with managed competition is a disregard for the will of the voters and inexcusable given the city’s present financial crisis.

As an additional management reform tool, I strongly urge that the eight Business Process Reengineering (BPR) studies that are underway be completed and presented to the City Council as soon as possible for implementation.

Modification 5: Creation of “Citizens Revenue Review and Economic Competitiveness Commission”

I am pleased to join with my colleague Tony Young in proposing a comprehensive study and open dialogue on ways to enhance revenue streams into the city’s budget. I have always believed that raising taxes and gutting city services are not the answers to our city’s budget challenges.

Instead of raising tax rates, city leaders ought to look at economic competitiveness as a way to increase city revenues. Indeed, city revenues increase as the local private sector experiences economic growth, without increasing taxes and fees. For every job that is created in the City of San Diego -- and as the financial fortune of every working family improves – the city will see increased revenues.

I strongly urge that financial reform efforts continue to allow the City to attract burgeoning industries and foster innovation in the private sector. By convening this Commission, the City Council can fully understand the relationship of private sector success to the city’s ability to attract business, maintain a competitive workforce and provide quality services, and vice-versa.

Balancing the FY 2010 Budget
Page Six
May 4, 2009

Working Together We Can Finish the Job of Fiscal Reform
--

Like you, I am encouraged by the significant progress that the Mayor and the City Council have made in the past several months. However, we all recognize the incredible amount of work remaining in reforming city finances. I look forward to working with each of you in dealing with the challenges posed by the current budget process, as well as the already daunting FY 2011 budget process.



City of San Diego

CARL DEMAIO
CITY COUNCILMEMBER –DISTRICT 5

MEMORANDUM

DATE: January 21, 2009
TO: Mayor and City Council
CC: Independent Budget Analyst
FROM: Councilmember Carl DeMaio
RE: Budget Priorities for FY 2010

As the FY 2010 Budget Process begins, I appreciate the opportunity to share my budget priorities with my colleagues on the City Council. This memo also lays out the first of three proposals I will offer during this budget process to help balance the FY 2010 budget while putting the city back on a path of fiscal health. I am also looking forward to helping my colleagues find offsetting budget reductions to achieve budget priorities in their districts.

Instead of emphasizing district-specific priorities, this submission highlights my commitment to the restoration of the City's overall fiscal health. A city-wide view is key because the city as a whole faces a financial crisis that threatens the long-term sustainability of programs in each individual council district.

Raising taxes and gutting city services are not the answers to our city's budget challenges. As such I'd like to see the FY 2010 budget reflect four key priorities that collectively are designed to decrease the per-unit operating costs of our city government.

- **Salary Freezes and Furloughs:** Instead of targeting service levels for cuts (reducing library hours, closing recreation facilities, etc.) the City should commit to no raises nor step increases in the FY 2010 labor contracts. In addition, the labor contracts should include language granting the Mayor the authority to structure a program he sees fit to impose up to 96 hours of unpaid furloughs for individual employees during FY 2010. This authority would be granted for FY 2010 alone and would apply to all city employees with the exception of sworn police officers and active firefighters and lifeguards.

Cost savings from 48 hours of furloughs should be calculated into the budget projections for FY 2010, with the remaining 48 hours being used only if a mid-year deficit occurs—

and triggered completely at the discretion of the Mayor. Having language already negotiated and included as part of the labor contract will be key to implementing this cost-saving reform.

Including this provision in our FY 2010 budget and associated labor contracts will save up to **\$7.3 million**.

- **Reform Employee Fringe Benefits:** At the January 7th Budget and Finance Committee meeting, I presented data that broke down the costs of “Fringe Benefits” awarded to city employees (See Attachment 1). As a whole, the City’s Fringe Benefit rate is a whopping 61.28% of total payroll. I ask that the Mayor and City Council commit to reduce the fringe benefits packages awarded to city employees to bring our total costs in line with national averages.

In achieving savings under this priority, the Mayor and City Council should consider the following reforms:

- Reform of the employee “offset” retirement contributions¹ (**\$40.1 million in FY 2009**)²
- Reduction of the flat allowances for health care benefits (**\$59 million in FY 2009**)
- Elimination or reduction of the City’s SPSP contributions. (**\$24 million in FY 2009**)³

Depending on which mix of fringe benefit reforms are enacted, we can achieve **\$25-40 million** in savings in FY 2010 alone.⁴

In addition to the reforms above, the Mayor and City Council should commit to additional reforms in pension and retiree health benefits that will impact the costs for these benefits in FY 2010 and beyond. At the least, the Mayor and City Council should eliminate the DROP benefit for individuals not already enrolled in the program and reform the interest credited to DROP accounts to match a five year average CD rate.

- **Implement Managed Competition:** In 2006 San Diego voters clearly spoke to their elected leaders in mandating that the City utilize “managed competition” to achieve cost savings and performance improvements. Unfortunately, this reform has met strong resistance from being implemented—some of it coming from the City Council itself. Not one taxpayer dollar has been subject to this voter-approved requirement. I ask that

¹ The vast majority of retirement plans feature a contribution from the employer (ie. The City) and the employee (city worker). The City of San Diego engages in the costly practice of paying a portion of the employee’s required contribution. This program is known as the retirement “offset” contribution.

² Consistent to a recent settlement with the Municipal Employees Association on this issue, should the City not be able to reform this benefit, additional salary and staff reductions would have to be made.

³ The SPSP system was originally created to “replace” Social Security when the City opted out of the system in the 1980s. However, SPSP is no longer required by the IRS as the City’s defined benefit pension plan provides more than the required income to allow the elimination of SPSP in accordance with IRS guidelines.

⁴ Includes General Fund, Enterprise Funds, Special Funds.

the City Council commit to a specific target of cost savings in the FY 2010 budget from implementation of managed competition. To not move forward with managed competition is a disregard for the will of the voters and inexcusable given the city's present financial crisis.

- **Accelerate CCDC Payback of Redevelopment Dollars:** Redevelopment downtown under the Center City Development Corp. has been a stunning success. Over the years tax increment has been collected by CCDC to jumpstart development by subsidizing projects of specific interests. It is now time for CCDC to emphasize uses of its tax increment that serve the public interest.

CCDC's repayment of CDBG loans should be accelerated to begin in FY 2010—with proceeds from this repayment covering ADA projects in qualifying areas. This repayment strategy will free up scarce infrastructure dollars for bona fide deferred maintenance projects. In the coming weeks my office will research and share additional ideas on how CCDC can help serve the broader, public interest during this fiscal crisis.

Proposed Expenditure Reductions: FY 2012			
	General Fund	Other Funds	Total
Salary Freezes and Furloughs	\$3.65 M		
Reform "Offset" Contributions (1)	\$28.1 M	\$11.9 M	\$40 M
Reduction of flat allowances for health care benefits	\$3.5 M	\$1.5 M	\$5 M
Elimination or Reduction of SPSP contributions	\$16.9 M	\$7.1 M	\$24 M
	≈ \$52 M	≈ \$20 M	≈ \$69 M

1 Consistent with a recent settlement with the Municipal Employees Association (MEA) on this issue, should the City now be able to reform this benefit, additional salary and staff reductions would have to be made.

2 Proportional Values for General Fund and other are archaically approximated using the proportion of General Fund positions in the FY 2009 adopted budget.

As the budget process proceeds and we receive the Mayor's proposed FY 2010 budget, I will provide additional cost saving options to help balance our city's budget and restore its long-term fiscal health. I look forward to working with my colleagues throughout the coming year in incorporating each Councilmember's individual priorities in the ultimate budget we adopt.